



A123 Systems, Inc.
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November 14, 2012

Via Electronic Mail and Federal Express

Senator Charles E. Grassley
Senator John R. Thune
United States Senate
Washington, DC 20510-6275
Attn: Chris Lucas

Re: Responses of A123 Systems, Inc. ("A123") to October 9, 2012 Letter

Dear Senators Grassley and Thune:

I'm writing in response to your letter dated October 9, 2012 to A123's President & Chief Executive Officer, David Vieau, expressing concern regarding a potential investment in A123 by Wanxiang America Corporation and its affiliated entities (collectively, "Wanxiang"). We did not receive the letter at our Waltham, MA corporate headquarters until October 22, 2012 due to email transmission issues and we informed Chris Lucas of your staff accordingly. Mr. Lucas agreed to provide us with an extended time to respond - nevertheless, we apologize for the delay.

Please note that A123's filing of a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware on October 16, 2012 (the "Bankruptcy Court", and the filing therein, the "Chapter 11 Filing"), resulted in the termination of the Securities Purchase Agreement between A123 and Wanxiang Clean Energy USA Corp. of August 16, 2012, which appears to have prompted your letter. While it is still possible that Wanxiang may be a successful bidder for some or substantially all of A123's assets under the auction and sale process A123 is currently pursuing under Section 363 of the Bankruptcy Code, the final result will not be known until December 11, 2012 when the Bankruptcy Court is scheduled to hold a hearing to confirm A123's asset sale under the Bankruptcy Court's approved bidding procedures.

Given that the circumstances underlying your letter have changed, due both to A123's Chapter 11 Filing and the resulting structure required for any subsequent transaction under the Section 363 asset auction and sale process, some of your questions may no longer be relevant as posed. Nevertheless, in order to be as responsive as possible, we have provided answers to your questions below and have indicated those that may have now become moot.

Questions

1. How much of A123's \$249.1 million Recovery Act grant is still outstanding?

A123 has \$115.8 million outstanding under the DOE Recovery Act grant (the "Grant").

2. What was the date of the most recent grant distribution from DOE to A123 and how much was that distribution?

A123 received \$946,830 under the Grant on October, 16, 2012.

3. Considering that A123 has already received millions of U.S. taxpayer dollars and could potentially receive up to \$450 million from a foreign company, does A123 need additional taxpayer dollars to continue its operations?

The investment transaction A123 initially entered into with Wanxiang on August 16, 2012 as referenced in the above question was terminated under its terms upon A123's Chapter 11 Filing made on October 16, 2012. As noted above, A123 is currently in the process of conducting an auction and sale process for its assets under Section 363 of the Bankruptcy Code and Wanxiang has qualified as a bidder to purchase substantially all of A123's assets in those proceedings.

It should also be noted that the grants awarded under the American Recovery and Reinvestment Act (the "Recovery Act") were not based on an applicants' financial need, but were based primarily on stimulating job creation as well as developing a domestic manufacturing infrastructure in several areas, including alternative energy.

If A123 (or a potential successor-in-interest to the Grant), needs to expand and/or update its current U.S. manufacturing capacity beyond current capacity, then it is possible that it may desire to take advantage of some or all of the remaining Grant funds to do so.

4. If the A123-Wanxiang transaction is approved, how will that impact future distributions of A123's Recovery Act grant, if at all?

As noted in the response to Question 3 above, the A123-Wanxiang investment transaction of August 16, 2012 terminated upon A123's Chapter 11 Filing – accordingly, the referenced transaction is no longer subject to approval.

5. What assurances, if any, has A123 given the Federal government that the A123-Wanxiang transaction and additional DOE funding through the Recovery Act will not

lead to a transfer of taxpayer-funded intellectual property to a China-based company, or that the taxpayer-funded manufacturing jobs will remain in the United States?

It should be noted that the Grant was not intended to support A123's research and development efforts, and, as a result, A123 has not developed any intellectual property as a result of receiving Grant funding.

Initially, as the non-investing party and, currently, the non-purchasing party in the Section 363 auction and sale process in connection with the Chapter 11 Filing, A123 is not in a position to speak for a potential acquiring party or parties regarding a future, hypothetical situation.

6. With the recent announcement that Wanxiang will be investing in A123, has the DOE placed additional milestones on A123's progress before awarding A123 additional Recovery Act grant dollars, and if so, what are those milestones?

No.

7. In an August 3, 2012, letter to us, Acting Executive Director of DOE's Loan Program Office David Frantz wrote that, "(t)he Department is in constant dialogue with A123 to stay abreast of progress, challenges, plans and developments to assure that the project is meeting the objectives as defined in the grant. DOE is also continually monitoring risk and financial conditions." As part of this "continual monitoring" when did A123 make the DOE aware of A123's pending transaction with Wanxiang?

A123 first contacted the DOE regarding its initial transaction with Wanxiang on or about August 3, 2012.

8. Did DOE raise any objection to this transaction to A123? If so, when? Please provide documents supporting any objection raised by DOE to this transaction.

Under the Grant agreement, A123 is required to obtain the DOE's consent prior to encumbering any DOE-funded equipment e.g., by granting a lien to a third party on such equipment, and A123 complied with its contractual obligations in this respect. A123 does not believe it would be appropriate either to speak on behalf of the DOE or to disclose any correspondence from the DOE in this regard and would respectfully suggest that you contact Ms. Angela Bosley, the Contracting Officer at DOE's National Energy Technology Laboratory, which supervises the Grant.

9. Has A123 submitted any paperwork to the Committee on Foreign Investment in the United States? If so, please provide this paperwork.

Yes, A123 submitted the initial transaction to CFIUS on September 5, 2012. That filing was rejected by CFIUS once the underlying transaction was terminated in connection with the Chapter 11 Filing. As part of the Bankruptcy Court auction process, A123 notified CFIUS of Wanxiang's continuing interest to participate as a bidder on October 30 and

November 8, 2012. As these submissions are deemed confidential pursuant to 50 U.S.C. App. §2170(c), A123 would respectfully suggest that you request these submissions directly from the CFIUS Staff Chair, Aimen N. Mir, who has custody and control of these documents.

10. Did A123 receive any offers or indications of interest from U.S.-based corporations? If so, was the DOE made aware of these offers?

Yes – A123 initially received a written indication of interest from a single U.S. corporation, Johnson Controls, Inc. (“JCI”), during a marketing process that commenced in March 2012, in which over 70 companies worldwide were contacted by A123’s financial advisor, Lazard, regarding a potential acquisition of A123. This process was confidential and, accordingly, the DOE was not made aware of any offers or indications of interest, including JCI’s. At the conclusion of the process, A123 and its advisers ultimately determined that pursuing a transaction with Wanxiang was in the best interest of the company, its employees and stakeholders.

Subsequently, in conjunction with its Chapter 11 Filing, on October 16, 2012, A123 and its subsidiaries A123 Securities Corporation and Grid Storage Holdings LLC, entered into an asset purchase agreement (the “Asset Purchase Agreement”) with JCI, pursuant to which JCI agreed to acquire A123’s automotive business assets and certain liabilities, including all of its automotive technology, certain products and customer contracts, its facilities in Livonia and Romulus, Michigan and A123’s equity interest in Shanghai Advanced Traction Battery Systems Co. Ltd., A123’s joint venture with SAIC Motor Co., Ltd., for an aggregate purchase price of \$116 million. Additionally, pursuant to the Asset Purchase Agreement, A123 granted JCI the option to acquire its cathode powder manufacturing facilities in China for an additional purchase price of \$9 million. The Asset Purchase Agreement and anticipated related agreements contemplate that JCI will license back to A123 certain technology and intellectual property for use in A123’s grid, commercial and government businesses, on an exclusive basis.

The DOE was made aware of this proposed JCI asset purchase transaction and it was disclosed publicly by A123 in a Form 8-K filing with the U.S. Securities Exchange Commission on October 16, 2012.

11. How does the proposed Wanxiang deal protect the interest of shareholders whose holdings are likely to be diluted?

This question is no longer applicable in light of the termination of Wanxiang’s investment transaction as a result of A123’s Chapter 11 Filing.

12. Has A123 received any contracts from the Federal government for classified work? If so, what is the highest level of classification?

Yes – to date A123 has received one classified Federal government contract which had a “Secret” level classification.

13. Is A123 pursuing any contracts from the Federal government which require security clearance? If so, what is the highest level of classification?

No.

14. If A123 is acquired by a foreign company, how will sensitive Department of Defense data be protected?

If acquired by a foreign company, A123 would continue to comply with applicable industrial security and export control regulations. A123 also would expect that any sensitive Department of Defense data would be protected pursuant to procedures that would be required by CFIUS in approving the transaction, which could include segregating the applicable contracts/facilities/personnel via entry into a Special Security or other national security agreement, establishment of a Proxy Corporation, or spinning-out the organization involved in Department of Defense work into a completely separate entity that would allow A123's Department of Defense business to continue with appropriate protection.

Very truly yours,



Eric J. Pyenson
Vice President & General Counsel

Cc: David P. Vieau, President & Chief Executive Officer